

FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006



GUTTENBERG MUNICIPAL HOSPITAL

Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-6
BASIC FINANCIAL STATEMENTS	
Balance Sheets	7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-22
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	23
Notes to Required Supplementary Information – Budgetary Reporting	24
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	25
OTHER SUPPLEMENTARY INFORMATION	
Schedules	
Net Patient Service Revenue	26
Other Operating Revenues	27
Operating Expenses	28-31
Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics	32
Supplies (Inventories)/Prepaid Expenses	33
Statistical Information (Unaudited)	34
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	35-36
SCHEDULE OF FINDINGS	37-38

**GUTTENBERG MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Mary Eulberg	Chairperson	December 2007
James Kuempel	Vice-Chairperson	December 2009
Kathy Lansing	Secretary/Treasurer	December 2007
Penny Hansel	Member	December 2007
Doug Reimer	Member	December 2009
	<u>Hospital Officials</u>	
Kim Gau	Administrator	



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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the accompanying balance sheet of **Guttenberg Municipal Hospital** as of June 30, 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Guttenberg Municipal Hospital** as of and for the year ended June 30, 2006, were audited by other auditors whose report dated August 25, 2006, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Guttenberg Municipal Hospital** as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2007, on our consideration of **Guttenberg Municipal Hospital's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 6 and the Budgetary Comparison Information on pages 23 and 24 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 7, 2007

**GUTTENBERG MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

This section of Guttenberg Municipal Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2007. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by \$603,000 or 9.0%.
- The Hospital's current assets exceeded current liabilities by \$2,356,000 at June 30, 2007.
- Cash and cash equivalents increased \$243,000 (14%) from \$1,725,000 to \$1,968,000.
- During the year, the Hospital's total operating revenues increased over 20% to \$7.7 million from \$6.5 million a year ago. The primary reason for the increase in operating revenues was due to the addition of a successful surgeon to the physician mix. The increased surgical volume has positively impacted both inpatient and the outpatient revenues.
- The Hospital made capital equipment purchases totaling \$280,000. Most of the equipment purchased in fiscal 2007 was focused on improving patient safety and upgrading technology. Acquisition this past year of digital (film-less) radiology and radiology picture archive system (PACS) are good examples.

Overview of the Financial Statements

The basic financial statements of the Hospital report information using the Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about the organization's activities.

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2007 reports total assets of \$7,325,167, total liabilities of \$2,565,550, and net assets of \$4,759,617.

The statements of revenues, expenses and changes in net assets provide information on the Hospital's revenues and expenses. These statements show total operating revenues of \$7,737,570 and total operating expenses of \$6,829,024 during fiscal year 2007. The operating income generated in 2007 was \$908,546 compared to an operating loss in 2006 of \$127,412.

**GUTTENBERG MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

The statement of cash flows provides information about the Hospital's cash from operating, investing and financing activities. As reported in this statement, cash and cash equivalents increased from \$1,725,492 at June 30, 2006 to \$1,968,026 at June 30, 2007, or 14.1%.

There are notes and schedules attached to the financial statements in the audit report. All of the notes are accepted as documented by our organization. Many of the notes are similar to past years and similar to other organizations our size. The reader is encouraged to examine the notes and schedules for additional information about the financial practices of the hospital as well as further detail about the revenues and expenses.

Significant Budget Variances:

Significant budget variances exist in Outpatient Revenue, Other Operating Revenue, Charity and Bad Debt.

Outpatient Revenue was \$6,695,000 compared to a budget of \$5,949,000, or a positive variance of \$746,000 (12.5%). This is largely a result of the addition of Dr. Hugo's general surgery practice in 2007. Surgery and surgery related (Anesthesia, Surgery Clinic, etc.) revenue accounted for \$456,000 of the variance. There was also a generous increase in Lab (also due in large part to surgery volume) and CT Scan revenue.

Other Operating Revenue was \$85,000 (30%) over budget at \$368,000. The major variances were a result of providing Physical Therapy contracted service (\$39,000) and Medical Records management contracted service (\$18,000).

There is a fine line in definition between Charity and Bad Debt when looking at Hospital accounts receivable write-offs. The Charity and Bad Debt variance offset each other and should be looked at together as below:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Charity	\$ 54,024	\$ 133,000	\$ 78,976
Bad Debt	<u>120,248</u>	<u>47,549</u>	<u>(72,699)</u>
Charity/Bad Debt	<u>\$ 174,272</u>	<u>\$ 180,549</u>	<u>\$ 6,277</u>

Guttenberg Municipal Hospital experienced a significant charity case in 2006; consequently, the 2007 Budget reflected that.

Long Term Debt

At year end, Guttenberg Municipal Hospital had \$1.75 million in long term debt. The debt is in the form of revenue bonds issued in 1998.

**GUTTENBERG MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Summary and Financial Future

The Hospital's financial position has turned around in a significantly positive manner this year. The Hospital staff did an outstanding job managing expense while increasing revenue. The Hospital is currently able to post strong financial ratios. The strong financial performance in 2007 positions the organization favorably to consider proceeding with its building expansion and renovation plan. This has been "on hold" for the past couple of years because the Hospital struggled with surgeon recruitment and establishment of a surgeon practice.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the Office of Administration at the following address:

Guttenberg Municipal Hospital
200 Main St.
P.O. Box 550
Guttenberg, IA 52052

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 8	\$ 123,725	\$ 119,015
Accounts payable		
Trade	112,454	193,575
Estimated third-party payor settlements	155,885	410,747
Accrued expenses		
Salaries and wages	100,124	88,554
Paid time off	242,519	232,043
Property taxes	71,580	68,411
Payroll taxes and other	<u>13,961</u>	<u>11,823</u>
Total current liabilities	820,248	1,124,168
LONG-TERM DEBT, less deferred loss on refunding and current maturities - Note 8	<u>1,745,302</u>	<u>1,864,057</u>
Total liabilities	<u>2,565,550</u>	<u>2,988,225</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,088,892	1,123,905
Restricted		
Expendable for capital acquisitions	370	1,060
Nonexpendable contribution to Community Foundation	10,000	10,000
Unrestricted	<u>3,660,355</u>	<u>2,599,370</u>
Total net assets	<u>4,759,617</u>	<u>3,734,335</u>
Total liabilities and net assets	<u>\$ 7,325,167</u>	<u>\$ 6,722,560</u>

GUTTENBERG MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$120,248 in 2007 and \$30,704 in 2006) - Notes 2 and 3	\$ 7,377,811	\$ 6,009,958
Other operating revenues	359,759	421,688
TOTAL OPERATING REVENUES	<u>7,737,570</u>	<u>6,431,646</u>
OPERATING EXPENSES		
Salaries and wages	2,510,163	2,643,935
Employee benefits	658,928	680,897
Management fees	230,175	213,048
Supplies and other expenses	2,862,834	2,374,931
Depreciation and amortization	437,144	460,395
Interest expense	78,709	84,035
Insurance	51,071	101,817
TOTAL OPERATING EXPENSES	<u>6,829,024</u>	<u>6,559,058</u>
OPERATING INCOME (LOSS)	<u>908,546</u>	<u>(127,412)</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	9,439	8,751
Investment income	95,106	53,927
Contribution to 28E organization	-	(15,000)
Change in member share of 28E organization net assets	(9,000)	-
Loss on disposal of equipment	(4,016)	(1,032)
NET NONOPERATING REVENUES	<u>91,529</u>	<u>46,646</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND CHANGE IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS	1,000,075	(80,766)
CAPITAL GRANTS AND CONTRIBUTIONS	5,580	6,270
CHANGE IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS	<u>19,627</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	1,025,282	(74,496)
NET ASSETS BEGINNING OF YEAR	<u>3,734,335</u>	<u>3,808,831</u>
NET ASSETS END OF YEAR	<u>\$ 4,759,617</u>	<u>\$ 3,734,335</u>

See notes to financial statements.

GUTTENBERG MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 6,846,930	\$ 5,352,564
Other receipts	370,419	418,997
Payments of salaries and wages	(2,485,979)	(2,631,677)
Payments of employee benefits	(658,928)	(680,897)
Payments of supplies and other expenses	<u>(3,247,449)</u>	<u>(2,608,555)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>824,993</u>	<u>(149,568)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	<u>9,439</u>	<u>8,751</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(279,509)	(91,051)
Restricted contributions received	5,580	6,270
Proceeds from sale of equipment	152	-
Payment of interest on debt	(78,709)	(84,035)
Payment of principal on debt	<u>(119,015)</u>	<u>(132,230)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(471,501)</u>	<u>(301,046)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in gift fund investments	(4,575)	(4,437)
(Increase) decrease in assets limited as to use or restricted	(210,928)	96,455
Contribution to 28E organization	-	(15,000)
Investment income received	<u>95,106</u>	<u>53,927</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(120,397)</u>	<u>130,945</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	242,534	(310,918)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,725,492</u>	<u>2,036,410</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,968,026</u>	<u>\$ 1,725,492</u>

(continued)

GUTTENBERG MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Operating income (loss)	\$ 908,546	\$ (127,412)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	437,144	460,395
Interest expense considered capital and related financing activity	78,709	84,035
Provision for bad debts	120,248	30,704
Changes in assets and liabilities		
Receivables	(385,607)	(29,813)
Supplies (inventories)	(4,468)	3,400
Prepaid expenses	(20,949)	57,944
Accounts payable	(81,121)	20,000
Estimated third party payor settlements	(254,862)	(660,976)
Accrued expenses	<u>27,353</u>	<u>12,155</u>
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	<u>\$ 824,993</u>	<u>\$ (149,568)</u>

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Guttenberg Municipal Hospital (Hospital) is a 25-bed public hospital located in Guttenberg, Iowa. It is organized under Chapter 392 of the Iowa Code and governed by a five member Board of Trustees elected for alternating terms of four years.

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted and gift fund investments.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Supplies (Inventories)

Supplies (inventories) are stated at lower of cost (first-in, first-out) or market.

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and debt retirement, over which the Board retains control and may, at its discretion, subsequently use for other purposes; and assets set aside under a bond indenture agreement.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized. The estimated useful lives of property and equipment are as follows:

Land improvements	8 – 20 years
Buildings and improvements	5 – 40 years
Equipment	5 – 15 years

Advertising Costs

The Hospital expenses advertising costs as incurred.

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the effective interest method.

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused paid time off hours for subsequent use or for payment upon termination, death, or retirement. The cost of paid time off is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Investment income

Interest on cash and deposits is included in nonoperating revenues and expenses.

Investments in Securities

The Hospital's investments in securities are classified and accounted for as securities "available-for-sale." Securities classified as "available-for-sale" are carried in the financial statements at fair value. Realized gains and losses, determined using the specific-identification method, are included in earnings; unrealized holding gains and losses are reported as other changes in net assets.

Reclassifications

Certain items from the 2006 financial statements have been reclassified to conform to current year presentation.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2007 and 2006, were \$54,024 and \$110,279, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years ended June 30, 2007 and 2006, were \$36,594 and \$74,699, respectively.

NOTE 3 – NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the period ended June 30, 2005. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 59% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2007, and 62% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2006.

A summary of net patient service revenue and deductions from patient service revenue for the years ended June 30, 2007 and 2006, is as follows:

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Total patient service revenue	<u>\$ 10,181,084</u>	<u>\$ 8,310,757</u>
Contractual adjustments		
Medicare	(1,868,502)	(1,633,838)
Medicaid	(165,048)	(172,509)
Other	(563,136)	(414,054)
Administrative adjustments/policy discounts	<u>(86,339)</u>	<u>(49,694)</u>
Total deductions from patient service revenue	<u>(2,683,025)</u>	<u>(2,270,095)</u>
Net patient service revenue	<u>7,498,059</u>	6,040,662
Provision for bad debts	<u>(120,248)</u>	<u>(30,704)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 7,377,811</u>	<u>\$ 6,009,958</u>

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2007, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district, and common stocks.

Credit risk: The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Governmental Accounting Standards Board Statement 3 at June 30, 2007 and 2006.

At June 30, 2007 and 2006, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Savings accounts	\$ 179,638	\$ 36,883
Certificates of deposit	252,701	808,426
Equity securities – common stock	637,394	-
Beneficial interest in net assets of Community Foundation	12,031	-
Interest receivable	<u>4,624</u>	<u>5,949</u>
	<u>\$ 1,086,388</u>	<u>\$ 851,258</u>

(continued on next page)

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Cost and fair value of marketable equity securities at June 30, 2007, is as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale Equity securities	\$ 617,767	\$ 19,627	\$ -	\$ 637,394

There were no net realized gains (losses) on sale of securities available-for-sale.

Interest rate risk. The Hospital's investment policy states that the Hospital's investment portfolio will remain sufficiently liquid to enable the Hospital to meet operating requirements that cash management procedures anticipate. The investment policy also states that for the general savings account, designating funds, and investable funds shall have maturities that do not exceed one year.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the code of Iowa.

NOTE 5 – BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

During 2007, the Hospital became a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held in perpetuity. The Hospital expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The funds which have been invested directly by Guttenberg Municipal Hospital are recognized in the financial statements as a beneficial interest in net assets of the Community Foundation at the fair market value of the Hospital's interest in the Foundation. These funds amount to \$12,031 at June 30, 2007.

NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2007 and 2006, was as follows:

	June 30, 2006				June 30, 2007
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 156,564	\$ -	\$ -	\$ -	\$ 156,564
Land improvements	350,355	-	-	-	350,355
Buildings	4,713,576	47,000	-	-	4,760,576
Equipment	2,752,056	232,509	15,525	23,928	2,992,968
Construction in progress	23,928	-	-	(23,928)	-
	<u>7,996,479</u>	<u>\$ 279,509</u>	<u>\$ 15,525</u>	<u>\$ -</u>	<u>8,260,463</u>

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	June 30, 2006				June 30, 2007
	Balance	Additions	Deductions	Transfers	Balance
Accumulated depreciation					
Land improvements	\$ 244,041	\$ 11,983	\$ -	\$ -	\$ 256,024
Buildings	2,572,255	165,074	-	-	2,737,329
Equipment	2,073,206	251,510	15,525	-	2,309,191
	<u>4,889,502</u>	<u>\$ 428,567</u>	<u>\$ 15,525</u>	<u>\$ -</u>	<u>\$ 5,302,544</u>
Total land, buildings, and equipment, net	<u>\$ 3,106,977</u>				<u>\$ 2,957,919</u>
	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 156,564	\$ -	\$ -	\$ -	\$ 156,564
Land improvements	350,355	-	-	-	350,355
Buildings	4,911,983	-	198,407	-	4,713,576
Equipment	2,777,958	61,276	87,178	-	2,752,056
Construction in progress	-	23,928	-	-	23,928
	<u>8,196,860</u>	<u>\$ 85,204</u>	<u>\$ 285,585</u>	<u>\$ -</u>	<u>7,996,479</u>
Accumulated depreciation					
Land improvements	231,856	\$ 12,185	\$ -	\$ -	244,041
Buildings	2,496,570	174,246	98,561	-	2,572,255
Equipment	1,898,812	260,449	86,055	-	2,073,206
	<u>4,627,238</u>	<u>\$ 446,880</u>	<u>\$ 184,616</u>	<u>\$ -</u>	<u>4,889,502</u>
Total land, buildings, and equipment, net	<u>\$ 3,569,622</u>				<u>\$ 3,106,977</u>

NOTE 7- LEASES

The Hospital leases certain equipment under non-cancellable operating lease agreements. Minimum monthly payments of \$2,816 and quarterly payments of \$35,520 are required until the leases expire in fiscal year 2011. The rental expense for the operating leases for the years ended June 30, 2007 and 2006, was \$175,876 and 11,639 respectively.

Minimum future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 175,876
2009	175,876
2010	175,876
2011	167,427
Total minimum lease payments	<u>\$ 695,055</u>

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 – LONG-TERM DEBT

A schedule of changes in the Hospital’s long-term debt for 2007 and 2006 follows:

	June 30 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2007 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Revenue bonds payable, variable rate currently 4.07%, due in varying monthly installments currently \$10,615, including interest to April 2019, collateralized by a pledge of the Hospital’s net revenues	\$ 1,271,407	\$ -	\$ 77,053	\$ 1,194,354	\$ 80,118
Revenue bonds payable, variable rate currently 4.02%, due in varying monthly installments currently \$5,862, including interest to October 2019, collateralized by a pledge of the Hospital’s net revenues	<u>724,918</u>	<u>-</u>	<u>41,962</u>	<u>682,956</u>	<u>43,607</u>
	<u>\$ 1,996,325</u>	<u>\$ -</u>	<u>\$ 119,015</u>	<u>1,877,310</u>	<u>\$ 123,725</u>
Less deferred loss on refunding				(8,283)	
Less current maturities				<u>(123,725)</u>	
Long-term debt, less deferred loss on refunding and current maturities				<u>\$ 1,745,302</u>	

Long-term debt maturities are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 123,725	\$ 74,000	\$ 197,725
2009	128,974	68,751	197,725
2010	134,305	63,420	197,725
2011	139,856	57,869	197,725
2012	145,637	52,088	197,725
2013-2017	823,620	165,000	988,620
2018-2020	<u>381,193</u>	<u>16,598</u>	<u>397,791</u>
	<u>\$ 1,877,310</u>	<u>\$ 497,726</u>	<u>\$ 2,375,036</u>

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2006 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Revenue bonds payable, variable rate currently 4.07%, due in varying monthly installments currently \$10,615, including interest to April 2019, collateralized by a pledge of the Hospital's net revenues	\$ 1,345,392	\$ -	\$ 73,985	\$ 1,271,407	\$ 77,053
Revenue bonds payable, variable rate currently 4.02%, due in varying monthly installments currently \$5,862, including interest to October 2019, collateralized by a pledge of the Hospital's net revenues	765,230	-	40,312	724,918	41,962
Capitalized lease obligations	<u>17,933</u>	<u>-</u>	<u>17,933</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,128,555</u>	<u>\$ -</u>	<u>\$ 132,230</u>	1,996,325	<u>\$ 119,015</u>
Less deferred loss on refunding				(13,253)	
Less current maturities				<u>(119,015)</u>	
Long-term debt, less deferred loss on refunding and current maturities				<u>\$ 1,864,057</u>	

NOTE 9 – PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$142,250, \$148,741, and \$134,055, respectively, equal to the required contributions for each year.

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 10 – CONTINGENCIES

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 11 – RISK MANAGEMENT

Guttenberg Municipal Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 12 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	36 %	41 %
Medicaid	4	5
Commercial and other insurance	39	30
Other third-party payors and patients	21	24
	<u>100%</u>	<u>100%</u>

(continued on next page)

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 13 – MEMBER SHARE OF 28E ORGANIZATION NET ASSETS

The Hospital entered into a 28E agreement with the City of Guttenberg (City) to form Kids Kampus Community Childcare (Kids Kampus). Kids Kampus was formed to provide a full service child day care center for the benefit of all of the members of the community served by the Hospital and the City. The effect date of the agreement was June 1, 2006. The agreement called for the transfer of the building used by Kids Kampus from the Hospital at a transfer cost of \$1. The Hospital owns the land on which the building resides. In the event Kids Kampus no longer has need of the building for the purpose of providing childcare services, the Hospital maintains the right of first refusal and will regain the building for the same transfer price of \$1.

The Hospital has also agreed to provide Kids Kampus charitable donations not to exceed the following amounts over the next two years:

2008	\$30,000
2009	20,000

GUTTENBERG MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2007

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated revenues/ receipts	\$ 7,863,306	\$ (516,053)	\$ 7,347,253	\$ 7,146,000	\$ 201,253
Expenses/disbursements	<u>6,838,024</u>	<u>31,565</u>	<u>6,869,589</u>	<u>7,146,000</u>	<u>276,411</u>
Net	1,025,282	(547,618)	477,664	-	<u>\$ 477,664</u>
Balance beginning of year	<u>3,734,335</u>	<u>(1,157,585)</u>	<u>2,576,750</u>	<u>3,005,686</u>	
Balance end of year	<u>\$ 4,759,617</u>	<u>\$ (1,705,203)</u>	<u>\$ 3,054,414</u>	<u>\$ 3,005,686</u>	

GUTTENBERG MUNICIPAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 392 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2007.

For the year ended June 30, 2007, the Hospital's expenditures did not exceed the amount budgeted.



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2007 supplementary information is presented for purposes of additional analysis and is not a required part of the 2007 basic financial statements. Such information, except for the Schedule of Statistical Information on page 34 marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole.

The 2006 supplementary information is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information, except for the Schedule of Statistical Information on page 34 marked "unaudited," was subjected to the auditing procedures applied by other auditors in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financials statements taken a as whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 7, 2007

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**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,212,919	\$ 1,166,177
Nursery	28,626	38,964
Swing-bed	257,640	178,351
Operating and recovery rooms	1,075,927	617,238
Delivery and labor rooms	44,182	46,709
Central services and supply	410,436	296,298
Emergency services	282,827	266,937
Ambulance services	191,528	183,091
Laboratory	1,868,098	1,673,352
Electrocardiology	264,909	224,830
Radiology	1,738,047	1,511,755
Pharmacy	868,490	941,383
Anesthesiology	625,550	344,091
Respiratory therapy	154,236	140,498
Physical therapy	421,695	441,590
Occupational and speech therapy	84,970	65,889
Cardiac rehab	63,778	41,245
Anticoagulation services	47,802	36,480
Surgery clinic	572,600	191,139
Nutritional services	2,346	473
Diabetes management	18,502	14,546
	<u>10,235,108</u>	<u>8,421,036</u>
Charity care	<u>(54,024)</u>	<u>(110,279)</u>
	<u>\$ 10,181,084</u>	<u>\$ 8,310,757</u>
Total patient service revenue*		
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 3,539,461	\$ 3,128,793
Outpatient revenue	6,695,647	5,292,243
Charity care	<u>(54,024)</u>	<u>(110,279)</u>
	<u>10,181,084</u>	<u>8,310,757</u>
DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments		
Medicare	(1,868,502)	(1,633,838)
Medicaid	(165,048)	(172,509)
Other	(563,136)	(414,054)
Administrative adjustments/policy discounts	<u>(86,339)</u>	<u>(49,694)</u>
Total deductions from patient service revenue	<u>(2,683,025)</u>	<u>(2,270,095)</u>
NET PATIENT SERVICE REVENUE	7,498,059	6,040,662
PROVISION FOR BAD DEBTS	<u>(120,248)</u>	<u>(30,704)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 7,377,811</u>	<u>\$ 6,009,958</u>

**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Office rent	\$ 93,386	\$ 96,994
Physical therapy services	80,239	42,017
Lab reference services	49,340	48,743
Cafeteria	29,167	28,426
Fitness center memberships	20,075	22,132
Medical records fees	20,027	1,642
Contracted services	14,904	10,934
Business health	7,300	4,855
Drugs and supplies sold to non-patients	4,484	3,339
Dietary services	3,344	2,152
Housekeeping services	2,597	1,607
Health education reimbursement and fees	338	2,182
Child care	-	106,084
Grants	-	2,915
Other	<u>34,558</u>	<u>47,666</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 359,759</u>	 <u>\$ 421,688</u>

**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 734,465	\$ 699,104
Supplies and other expenses	<u>71,571</u>	<u>57,822</u>
	<u>806,036</u>	<u>756,926</u>
NURSERY		
Salaries and wages	8,773	13,009
Supplies and other expenses	<u>1,391</u>	<u>1,404</u>
	<u>10,164</u>	<u>14,413</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	82,534	59,114
Supplies and other expenses	<u>98,532</u>	<u>67,358</u>
	<u>181,066</u>	<u>126,472</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	9,497	10,398
Supplies and other expenses	<u>2,274</u>	<u>2,687</u>
	<u>11,771</u>	<u>13,085</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	29,206	28,850
Supplies and other expenses	<u>101,735</u>	<u>42,158</u>
	<u>130,941</u>	<u>71,008</u>
EMERGENCY SERVICES		
Salaries and wages	43,068	36,637
Supplies and other expenses	<u>148,823</u>	<u>140,680</u>
	<u>191,891</u>	<u>177,317</u>
AMBULANCE SERVICES		
Salaries and wages	50,661	51,023
Supplies and other expenses	<u>18,689</u>	<u>14,494</u>
	<u>69,350</u>	<u>65,517</u>
LABORATORY		
Salaries and wages	284,572	274,569
Supplies and other expenses	<u>341,180</u>	<u>329,901</u>
	<u>625,752</u>	<u>604,470</u>
ELECTROCARDIOLOGY		
Salaries and wages	8,184	6,105
Supplies and other expenses	<u>1,185</u>	<u>1,270</u>
	<u>9,369</u>	<u>7,375</u>
RADIOLOGY		
Salaries and wages	207,220	191,805
Supplies and other expenses	<u>296,596</u>	<u>265,485</u>
	<u>503,816</u>	<u>457,290</u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
PHARMACY		
Salaries and wages	\$ 10,564	\$ 9,228
Supplies and other expenses	<u>327,133</u>	<u>370,036</u>
	<u>337,697</u>	<u>379,264</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>289,227</u>	<u>189,505</u>
RESPIRATORY THERAPY		
Salaries and wages	26,399	20,806
Supplies and other expenses	<u>4,788</u>	<u>1,352</u>
	<u>31,187</u>	<u>22,158</u>
PHYSICAL THERAPY		
Salaries and wages	150,293	137,126
Supplies and other expenses	<u>93,293</u>	<u>89,396</u>
	<u>243,586</u>	<u>226,522</u>
FITNESS CENTER		
Supplies and other expenses	<u>2,299</u>	<u>1,451</u>
BUSINESS HEALTH		
Salaries and wages	8,525	13,085
Supplies and other expenses	<u>3,604</u>	<u>2,138</u>
	<u>12,129</u>	<u>15,223</u>
FAMILY RESOURCES		
Salaries and wages	13,918	29,820
Supplies and other expenses	<u>2,115</u>	<u>1,143</u>
	<u>16,033</u>	<u>30,963</u>
CARDIAC REHAB		
Salaries and wages	11,955	10,527
Supplies and other expenses	<u>1,432</u>	<u>539</u>
	<u>13,387</u>	<u>11,066</u>
SURGERY CLINIC		
Salaries and wages	66,409	221,182
Supplies and other expenses	<u>249,423</u>	<u>79,401</u>
	<u>315,832</u>	<u>300,583</u>
MEDICAL RECORDS		
Salaries and wages	126,373	108,855
Supplies and other expenses	<u>36,642</u>	<u>34,531</u>
	<u>163,015</u>	<u>143,386</u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
DIETARY		
Salaries and wages	\$ 84,921	\$ 83,160
Supplies and other expenses	73,073	58,944
	<u>157,994</u>	<u>142,104</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	46,518	46,673
Supplies and other expenses	206,153	171,444
	<u>252,671</u>	<u>218,117</u>
HOUSEKEEPING		
Salaries and wages	46,895	43,883
Supplies and other expenses	10,367	10,361
	<u>57,262</u>	<u>54,244</u>
LAUNDRY AND LINEN		
Salaries and wages	15,093	10,319
Supplies and other expenses	4,641	4,399
	<u>19,734</u>	<u>14,718</u>
COMMUNICATIONS		
Salaries and wages	1,586	-
Supplies and other expenses	140,206	136,799
	<u>141,792</u>	<u>136,799</u>
FISCAL SERVICES		
Salaries and wages	194,530	190,291
Supplies and other expenses	79,676	72,506
	<u>274,206</u>	<u>262,797</u>
ADMINISTRATION		
Salaries and wages	221,756	231,211
Management fees	230,175	213,048
Supplies and other expenses	163,420	121,205
	<u>615,351</u>	<u>565,464</u>
PURCHASING		
Salaries and wages	20,393	19,528
Supplies and other expenses	2,016	1,277
	<u>22,409</u>	<u>20,805</u>
CHILD CARE		
Salaries and wages	-	91,823
Supplies and other expenses	-	23,847
	<u>-</u>	<u>115,670</u>
SPECIALTY CLINIC		
Salaries and wages	5,855	5,804
Supplies and other expenses	3,301	488
	<u>9,156</u>	<u>6,292</u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
MEDICAL OFFICE BUILDING		
Supplies and other expenses	<u>\$ 75,212</u>	<u>\$ 71,140</u>
DIABETES MANAGEMENT		
Supplies and other expenses	<u>12,837</u>	<u>9,770</u>
UNASSIGNED EXPENSES		
Employee benefits	658,928	680,897
Depreciation and amortization	437,144	460,395
Insurance	51,071	101,817
Interest	<u>78,709</u>	<u>84,035</u>
	<u>1,225,852</u>	<u>1,327,144</u>
TOTAL OPERATING EXPENSES	<u>\$ 6,829,024</u>	<u>\$ 6,559,058</u>

GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS
AND COLLECTION STATISTICS
JUNE 30, 2007 AND 2006

ANALYSIS OF AGING

<u>Days Since Discharge</u>	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0-30	\$ 831,267	59%	\$ 669,275	67%
31-60	203,729	14	124,290	13
61-90	129,543	9	40,951	4
91-180	102,065	7	51,433	5
180 and over	141,080	11	110,131	11
	1,407,684	100.00%	996,080	100.00%
Less: Allowance for doubtful accounts	(191,038)		(139,338)	
Allowance for contractual adjustments	(267,764)		(183,879)	
Net	\$ 948,882		\$ 672,863	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 139,338	\$ 136,284
Add: Provision for bad debts	120,248	30,704
Recoveries of accounts written off	17,418	30,545
Less: Accounts written off	(85,966)	(58,195)
Balance, end of year	\$ 191,038	\$ 139,338

COLLECTION STATISTICS

Net accounts receivable – patients	\$ 948,882	\$ 672,863
Number of days charges outstanding (1)	43	39
Uncollectible accounts (2)	\$ 180,162	\$ 147,115
Percentage of uncollectible accounts to total charges	2%	2%

- (1) Based on average daily net patient service revenue for April, May, and June.
(2) Includes provision for bad debts, charity care, and collection expense.

GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF SUPPLIES (INVENTORIES)/PREPAID EXPENSES
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPLIES (INVENTORIES)		
Pharmacy	\$ 66,045	\$ 59,004
Storerooms	59,835	63,337
Dietary	<u>5,093</u>	<u>4,164</u>
	<u>\$ 130,973</u>	<u>\$ 126,505</u>
PREPAID EXPENSES		
Insurance	\$ 30,368	\$ 26,629
Other	<u>77,069</u>	<u>59,859</u>
	<u>\$ 107,437</u>	<u>\$ 86,488</u>

GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Acute		
Adults and pediatrics	1,535	1,607
Newborn	58	81
Swing-bed	686	484
NUMBER OF BEDS	25	25
PERCENT OF OCCUPANCY (excluding newborn)	24%	23%
DISCHARGES		
Acute	505	484
Swing-bed	99	73
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	3.04	3.32
Swing-bed	6.93	6.63
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Private rooms	\$ 725.00	\$ 704.00
2-bed rooms	610.00	591.00
Nursery	467.00	453.00
Skilled care	447.00	434.00



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the accompanying balance sheet of **Guttenberg Municipal Hospital** as of June 30, 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of **Guttenberg Municipal Hospital** as of June 30, 2006, were audited by other auditors whose report dated August 25, 2006, expressed an unqualified opinion on those financial statements.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **Guttenberg Municipal Hospital's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of **Guttenberg Municipal Hospital's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Guttenberg Municipal Hospital's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Guttenberg Municipal Hospital's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of **Guttenberg Municipal Hospital's** financial statements that is more than inconsequential will not be prevented or detected by **Guttenberg Municipal Hospital's** internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by **Guttenberg Municipal Hospital's** internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of **Guttenberg Municipal Hospital** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Guttenberg Municipal Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit **Guttenberg Municipal Hospital's** responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management in a separate letter dated September 7, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Guttenberg Municipal Hospital** and other parties to whom **Guttenberg Municipal Hospital** may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Guttenberg Municipal Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 7, 2007

GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07 Preparation of Financial Statements – The Hospital does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Hospital's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

**GUTTENBERG MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-07 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-07 Business Transactions – Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:
- | Name, Title, and
Business Connection | Transaction
Description | Amount |
|---|----------------------------|---------------|
| Employee’s spouse – owner,
River Valley Communications | Supplies/Repairs | \$ 641 |
- II-E-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.



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The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the financial statements of **Guttenberg Municipal Hospital** for the year ended June 30, 2007, and have issued our report thereon dated September 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated February 8, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of **Guttenberg Municipal Hospital**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of **Guttenberg Municipal Hospital's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **Guttenberg Municipal Hospital** are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the Hospital during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors.

Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Hospital's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Hospital, either individually or in the aggregate, indicate matters that could have a significant effect on the Hospital's financial reporting process.

There were no significant passed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hospital's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Other Comments

We have included additional comments regarding the Hospital's operations.

This information is intended solely for the use of the officials, employees, and constituents of **Guttenberg Municipal Hospital** and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to **Guttenberg Municipal Hospital**.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 7, 2007

xc: Ms. Kim Gau, CEO

GUTTENBERG MUNICIPAL HOSPITAL

YEAR ENDED JUNE 30, 2007

OTHER COMMENTS

28E Agreement

During fiscal year 2007, management informed us that a 28E agreement (Kids Kampus Community Childcare) was created between Guttenberg Municipal Hospital and the City of Guttenberg. It should be noted that if a governmental hospital is a member of a Chapter 28E organization with gross receipts in excess of \$100,000 in a fiscal year, an audit of the 28E organization must be completed in accordance with Chapter 11.6 of the Code of Iowa.

Risk Assessment Audit Standards

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have a significant impact on the Hospital's audit.